

FOOD GIANT
MARKETS, INC.
CORPORATION FILE

FOOD GIANT

MARKETS, INC.



1960 Annual Report

DIRECTORS

THEODORE E. CUMMINGS*

J. HOWARD EDGERTON*

HAROLD L. FIERMAN*

ALFRED J. GOCK

RAY L. HOMMES

J. BRADFORD WHARTON, JR.

**Members of the Executive Committee*

OFFICERS

HAROLD L. FIERMAN, *Chairman of the Board*

THEODORE E. CUMMINGS, *President and Chairman of the Executive Committee*

FRANCIS W. DANIELSON, *Vice President and Treasurer*

GAIL J. BURCK, *Secretary*

TRANSFER AGENTS

The Marine Midland Trust Company of New York, N. Y.

The Corporation Trust Company of Jersey City, N. J.

REGISTRAR

Chemical Bank New York Trust Company, New York, N. Y.

AUDITORS

Ernst & Ernst

COUNSEL

Kaye Scholer, Fierman, Hays & Handler, New York, N. Y.

Robert N. Gold, Beverly Hills, California

FOOD GIANT MARKETS, INC.

PRINCIPAL OFFICE

4707 District Boulevard, Los Angeles 58, California



TO OUR SHAREHOLDERS:

The year 1960 has been one of growth and diversification for your Company. At year-end Food Giant Markets, Inc. operated 36 supermarkets, having opened five new markets during this period. In line with its program of diversification, your Company also acquired Meyenberg-Old Fashion Products Company, manufacturers of milk products, and a group of retail liquor stores in the San Diego area.

SALES AND EARNINGS. For the year 1960, on sales of \$136,645,328, the net income of the Company was \$3,049,591 after federal income taxes which, after provision for Preferred dividends of \$256,389, amounted to \$2,793,202, equivalent to \$1.82 per share on 1,534,669* shares of Common Stock outstanding at the year-end. This compares with 1959 sales of \$94,907,994, and net income of \$3,018,841 (no provision required for federal income taxes by reason of prior years loss carry-over) which, after provision for Preferred dividends of \$306,115, amounted to \$2,712,726,

equivalent to \$1.88 per share on 1,444,241 shares of Common Stock outstanding at 1959 year-end. By reason of the provision for federal income taxes applicable to 1960 income, a proper comparison between years is the pre-tax earnings. Such comparison shows a profit of \$5,763,591 for 1960 as compared to \$3,018,841 for 1959, indicating that pre-tax earnings approximately doubled.

At the beginning of the year your Company joined with the majority of the retail food industry in the Los Angeles area in offering Blue Chip trading stamps to the consumer, the cost of which to Food Giant was about 1.5% of applicable sales.

BALANCE SHEET. The Balance Sheet at the 1960 year-end reflected further improvement. Current assets at January 1, 1961, were \$19,468,761 with current liabilities of \$10,696,576 reflecting a year-end current ratio of 1.82 to one and with a working capital of \$8,772,185. On January 4, 1961 your Company

*This represents an increase of 90,428 shares over 1,444,241 shares outstanding at January 3, 1960. Of this increase, 40,529 shares resulted from the conversion of Preferred Stock, 58,774 shares from the distribution of 4% stock dividends and 1,084 shares from the exercise of stock options, less 9,959 shares held in treasury.

disposed of the sole remaining asset of the former Magic Chef division consisting of the Cleveland plant for approximately \$1,120,000 net cash. On February 28, 1961 your Company borrowed the balance available to it under its agreement with the Prudential Insurance Company of America amounting to \$2,500,000. As a result of the additional funds received under this agreement, the Prudential Insurance Company of America's long-term loan was increased to \$10,000,000 which is due in 1975 and the first installment payment thereon will be required to be made on February 1, 1963. These funds, together with current earnings and depreciation, will be sufficient to finance the Company's present projected expansion program for new units. Because of these two transactions the working capital was increased by about \$3,620,000 resulting in a total present working capital of approximately \$12,390,000 which compares favorably with a working capital of \$6,958,277 at the end of the 1959 period.

DIVIDENDS. Two regular semi-annual cash dividends of \$.20 per share each on the Preferred Stock were paid in 1960. In addition, two semi-annual stock dividends of 2% each were paid on the Company's Common Stock.

MANAGEMENT AND PERSONNEL. The management program for the development of additional personnel required for its expansion program has been most successful. The operation of our new units during the last two years justifies confidence that the continuation of the personnel development program will be able to provide the manpower necessary for

the future expansion of the Company. Management takes this opportunity to thank its loyal and efficient employees for the splendid cooperation which has made the results of the past year possible.

LOOKING TO 1961. Meyenberg-Old Fashion Products Company, acquired in June as of January 1, 1960, is now a wholly-owned subsidiary of your Company. Meyenberg manufactures evaporated and sweetened condensed cow's milk and evaporated goat's milk and operates, by franchise, soft ice cream and hamburger drive-in stands in California. This is the largest operation of its kind in the state and additional units are under construction and in the planning stage. Meyenberg has proved highly satisfactory and should continue to produce excellent results.

Another important step in Food Giant's vertical integration program into the dairy, bakery and other food fields has been taken by the execution of a contract which, when consummated, will assure voting control of Golden Creme Farms, Inc. This dairy company operates a milk plant, bakery manufacturing plant, and an ice cream distribution unit and supplies these products to Food Giant and many other supermarkets in Southern California.

Plans have been substantially completed for construction of a central warehouse and distribution center of approximately 300,000 square feet on a plot of 25 acres which will meet present requirements and provide room for expansion for future operations. In addi-

tion, a district warehouse and a division bakery plant are presently under construction in San Diego.

Your Company has scheduled 30 additional markets to be constructed during the next 18 to 24 months. Most of the additional units projected will be located in large shopping centers in the Greater Los Angeles and San Diego areas. It is difficult to predict accurately when each of these projects will be completed and the premises delivered for operation. Six new markets will be opened prior to May 15, 1961, of which some had previously been scheduled for 1960 but were delayed by reason of the owners' inability to complete the structures within the time originally scheduled. Prior to the end of the year your Company is prepared to open approximately nine additional units provided the buildings are made available by the landlords. Your Company is negotiating

numerous leases for 1962 and later, and expects to operate in areas North of Los Angeles, either by building new markets or acquiring existing markets.

The trend of increasing population growth in California continues and can be expected to reflect in increased sales and earnings for your Company. Your management looks forward to 1961 with confidence and believes that it will be a period of further development for Food Giant Markets, Inc. because of the demonstrated loyalty of its many thousands of customers and its 2,600 efficient employees.

Respectfully submitted,

THEODORE E. CUMMINGS, President

HAROLD L. FIERMAN, Chairman of the Board

THREE YEAR STATISTICAL SUMMARY / FOOD GIANT MARKETS, INC. AND SUBSIDIARY

FISCAL YEARS	1960	1959*	1958
SALES	\$136,645,328	\$94,907,994	\$71,017,566
EARNINGS before federal taxes on income	\$5,763,591	3,018,841	1,522,020
FEDERAL TAXES on income	\$2,714,000	— †	— †
NET EARNINGS	\$3,049,591	3,018,841	1,522,020
EARNINGS on Common Stock	\$2,793,202	2,712,726	1,157,691
COMMON SHARES outstanding at year-end**	\$1,534,669	1,444,241	1,282,420
STOCKHOLDERS' EQUITY	\$19,035,211	17,431,260	14,646,290
EARNINGS per share on Common Stock	\$1.82	\$1.88	\$.90
NUMBER OF SUPERMARKETS at year-end	36††	31	18

* 53 week period

† Provision for federal taxes on income not required due to prior years tax loss carry-over

** Increases in outstanding common shares resulted primarily from regular stock dividends and conversion of Preferred Stock

†† Does not include 5 free-standing liquor stores operated in the San Diego area





CONSOLIDATED BALANCE SHEET* · FOOD G

ASSETS

CURRENT ASSETS

Cash	\$ 7,015,795
Notes and accounts receivable:	
Notes	\$ 146,052
Trade accounts	1,501,289
Other	492,133
Less allowance for doubtful	\$ 2,139,474
Merchandise inventories—at lower of average cost or market	
Prepaid expenses	32,126
	2,107,348
	9,850,531
	495,087
	\$19,468,761
TOTAL CURRENT ASSETS	

OTHER ASSETS

Investment in liquor licenses—at cost	\$ 642,823
Miscellaneous investments in capital stocks—at cost	537,632
Rental and other deposits	159,429
Property not used in operations—land (\$811,220) and buildings at cost, less \$316,256 allowance for depreciation—Note I...	1,551,716
Deferred charges	142,062
Trademarks, patents, and franchises—at cost less amortization	155,191
	3,188,853

PROPERTY, PLANT, AND EQUIPMENT—on the basis of cost

Buildings, fixtures and equipment, leaseholds, and leasehold improvements	\$18,719,605
Less allowances for depreciation and amortization	4,508,359
	\$14,211,246
Land	87,232
Deposits on purchase of land and equipment having a total cost of \$536,000	275,695
	14,574,173
	<u>\$37,231,787</u>

*See notes to financial statements

HANT MARKETS, INC. AND SUBSIDIARY · JANUARY 1, 1961

LIABILITIES

CURRENT LIABILITIES

Trade accounts payable	\$ 6,733,355
Salaries and wages, pay roll taxes, and amounts withheld from employees	829,367
Accrued taxes, interest, rent, and other expenses.....	799,420
Federal taxes on income—estimated.....	2,334,434
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	TOTAL CURRENT LIABILITIES
	\$10,696,576

LONG-TERM DEBT

5.9% promissory note payable to insurance company—Note B	7,500,000
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STOCKHOLDERS' EQUITY

Capital stock:

Preferred Stock, par value \$10 a share—Notes C and E:	
4% Cumulative Convertible Preferred Stock; authorized 877,490 shares, converted 342,008 shares, outstanding 535,482 shares	\$ 5,354,820
Cumulative Convertible Preferred Stock—4% Series of 1958; authorized and issued 100,000 shares.....	1,000,000
Other, not presently defined; authorized 522,510 shares, none outstanding	—0—

Common Stock, par value \$1 a share—Notes D and E:

Authorized 2,500,000 shares (of which 317,741 shares are reserved for conversion of convertible preferred shares and 61,902 shares are reserved for options); issued and outstanding 1,544,628 shares, including 9,959 shares in treasury

1,544,628

Capital surplus—Note E

6,535,958

Earned surplus—Notes B and H

4,831,318

Less Common Stock in Treasury—9,959 shares at cost.....

\$19,266,724

231,513

19,035,211

COMMITMENTS AND CONTINGENT LIABILITIES

Notes F and G

\$37,231,787



**STATEMENT OF CONSOLIDATED INCOME
AND EARNED SURPLUS***

FOOD GIANT MARKETS, INC. AND SUBSIDIARY

Fiscal year ended January 1, 1961

Net sales.....		\$136,645,328
Cost of merchandise sold.....		107,524,821
Selling, administrative, and general expenses		\$ 29,120,507
		23,916,688
		<hr/>
		\$ 5,203,819
Other income (cash discounts, capital gains, interest, and sundry earnings)		1,213,041
		<hr/>
Other deductions:		\$ 6,416,860
Interest on long-term debt.....	\$ 432,561	653,269
Miscellaneous	220,708	<hr/>
		\$ 5,763,591
INCOME BEFORE INCOME TAXES		2,714,000
Estimated federal income taxes		<hr/>
		\$ 3,049,591
Earned surplus at beginning of year:		
Food Giant Markets, Inc.....	\$ 2,597,190	
Meyenberg-Old Fashion Products Company—Note A	870,860	
		<hr/>
Less:		
Issuance of 28,491 shares of Common Stock on June 30, 1960, in payment of 2% stock dividend at market value of \$26.22 a share	\$ 747,034	
Issuance of 30,283 shares of Common Stock on December 15, 1960, in payment of 2% stock dividend at market value of \$21.07 a share	638,063	
Cash dividends declared:		
On 4% Cumulative Convertible Preferred Stock—\$.40 a share	231,780	
On Cumulative Convertible Preferred Stock—4% Series of 1958—\$.40 a share	40,000	
Payment of prior years' income taxes applicable to a predecessor corporation	29,446	1,686,323
		<hr/>
		\$ 4,831,318
		<hr/>
EARNS SURPLUS AT END OF YEAR		
Provision for depreciation and amortization of property, plant, and equipment amounted to \$1,824,392 for the year		

*See notes to financial statements

NOTES TO FINANCIAL STATEMENTS JANUARY 1, 1961

FOOD GIANT MARKETS, INC. AND SUBSIDIARY

NOTE A—ACQUISITION OF A SUBSIDIARY AND PRINCIPLES OF CONSOLIDATION. During 1960 the Company acquired all of the outstanding capital stock of Meyenberg-Old Fashion Products Company in exchange for 100,000 shares of the Company's Cumulative Convertible Preferred Stock—4% Series of 1958 and 55,000 shares of its Common Stock, such shares having been reacquired by the Company and issued from the treasury.

For accounting purposes, the transaction has been treated as a pooling of interests. The statement of consolidated income and earned surplus includes the results of operations of the Company combined with those of Meyenberg-Old Fashion Products Company for the year, and the earned surplus of the subsidiary as of January 4, 1960, has been included in consolidated earned surplus. Significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE B—LONG-TERM DEBT. The loan agreement dated February 1, 1960, relating to the note payable to an insurance company places certain restrictions on the amount of funded debt and on the amount of current debt from borrowings, and requires the Company to maintain consolidated working capital of \$7,000,000 to December 31, 1962, and \$8,000,000 thereafter. The agreement also provides that the Company cannot pay cash dividends or acquire its own stock except out of consolidated net earnings which are defined in the agreement as the sum of \$600,000 plus 70% of consolidated net earnings subsequent to January 1, 1960. At January 1, 1961, earned surplus available for the payment of dividends was \$2,231,421.

In February 1961, the Company borrowed \$2,500,000 which represented the remaining funds that were available to it under the terms of the loan agreement mentioned hereinabove. The total loan of \$10,000,000 is payable in annual installments of \$770,000 commencing February 1, 1963, with the balance becoming due February 1, 1975.

NOTE C—PREFERRED STOCK. The Preferred Stock is issuable in series under such terms and conditions as the Board of Directors may determine. The two series presently outstanding may be redeemed at any time at a redemption price equal to \$10.50 a share plus dividends accrued to the redemption date, and in the event of voluntary or involuntary liquidation or dissolution are entitled to \$10 a share plus dividends accrued to the date of such liquidation or dissolution. At the option of the holder thereof, the shares are convertible into fully-paid Common Stock of the Company at the rate of one-half share of Common Stock for each share of Preferred Stock.

NOTE D—STOCK OPTIONS. The Company's restricted stock option plan provides that options may be granted to officers and key employees to purchase shares of the Company's unissued or reacquired Common Stock at a price of not less than 100% of the fair market value of the shares on the grant date. The options are for a term of five years and are exercisable in three annual installments beginning one year after granting for a maximum of 40% of the optioned shares with the balance becoming exercisable in the two succeeding years.

At January 3, 1960, options for 33,362 shares were outstanding and 27,217 shares were reserved for future grants. During the fiscal year ended January 1, 1961, options for 3,212 shares were granted, 1,084 shares were sold for \$10,710 to employees exercising their options, and options for 319 shares lapsed. At January 1, 1961, options for 36,608 shares (19,198 shares at \$9.51, 8,118 shares at \$25.53, 2,923 shares at \$25.86, 3,248 shares at \$27.72 and 3,121 shares at \$25.72) were outstanding and 25,294 shares were reserved for future grants.

There have been no charges or credits to income with respect to the options.

NOTE E—CAPITAL SURPLUS. Changes in capital surplus during the year were as follows:

Balance at beginning of year:	
Food Giant Markets, Inc.....	\$6,224,399
Meyenberg-Old Fashion Products Company	207,976
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	\$6,432,375
Less adjustment arising from exchange of Food Giant Markets, Inc. treasury stock for outstanding capital stock of Meyenberg-Old Fashion Products Company—see Note A.....	2,002,408
	<hr/>
Adjusted balance at beginning of year.....	\$4,429,967
Additions:	
Excess of par value of 81,061 shares of 4% Cumulative Convertible Preferred Stock over par value of 40,529 shares of Common Stock issued therefor upon conversion, less \$39 paid in lieu of fractional shares.....	770,042
Excess of proceeds from sale of 1,084 shares of Common Stock issued under stock option agreements over the par value thereof	9,626
Excess of aggregate market value (\$26.22 a share) over the par value of 28,491 shares of Common Stock issued June 30, 1960, in payment of 2% stock dividend.....	718,543
Excess of aggregate market value (\$21.07 a share) over par value of 30,283 shares of Common Stock issued December 15, 1960, in payment of 2% stock dividend	607,780
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Balance at end of year.....	\$6,535,958

NOTE F—CONTINGENT LIABILITIES. At January 1, 1961, the Company was contingently liable as endorser on \$1,058,024 of notes receivable that had been sold. These notes had been received on the sale of certain assets of the Company. The Company's consolidated subsidiary was contingently liable as guarantor of other notes and conditional sales contracts amounting to \$62,000.

The Company's consolidated subsidiary has been named as a defendant in a legal action under which the plaintiff seeks to recover \$1,050,000 as asserted damages. In the opinion of the Company's legal counsel, the allegation cannot be substantiated.

NOTE G—LEASES. The Company occupies premises under leases expiring more than three years from January 1, 1961, for which aggregate annual rentals approximate \$1,725,000. Many of these leases provide for additional rent based upon sales and also provide that the lessee shall pay certain taxes, insurance, and other charges. In addition, the Company has executed leases for thirteen locations which were unoccupied at January 1, 1961. These leases provide for aggregate annual rentals of approximately \$600,000.

NOTE H—PREFERRED STOCK DIVIDEND. The semiannual cash dividend of \$.20 a share on the Preferred Stock, payable February 1, 1961, was declared by the Board of Directors on January 19, 1961.

NOTE I—EVENTS SUBSEQUENT TO JANUARY 1, 1961. On January 4, 1961, the Company sold for \$1,125,000 certain land and buildings not used in operations. The carrying amounts of these assets aggregated \$845,270 at the balance sheet date.

On February 8, 1961, the Company entered into an agreement for the acquisition of a portion of the outstanding capital stock of another company in exchange for 20,000 shares of Common Stock of the Company.



BOARD OF DIRECTORS
FOOD GIANT MARKETS, INC.
LOS ANGELES, CALIFORNIA

We have examined the consolidated balance sheet of Food Giant Markets, Inc. and subsidiary as of January 1, 1961, and the related statement of consolidated income and earned surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and earned surplus present fairly the consolidated financial position of Food Giant Markets, Inc. and subsidiary at January 1, 1961, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Los Angeles, California, March 3, 1961

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